

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Brooklyn-Guernsey-Malcom Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Scott Steffen	President	2006
Bev Rens	Vice President	2006
Duane McDonald	Board Member	2007
Gaynelle Connor	Board Member	2005
Wayne Cooper	Board Member	2005
Arlene Ford	Board Member	2007
Bob Parker	Board Member	2005

Board of Education
(After September 2005 Election)

Scott Steffen	President	2006
Bev Rens	Vice President	2006
Duane McDonald	Board Member	2007
Arlene Ford	Board Member	2007
Travis Solem	Board Member	2008
Gaynelle Connor	Board Member	2008
Bob Parker	Board Member	2008

School Officials

Terry A McLeod	Superintendent	2006
Sharon Goodrich	District Secretary/ Business Manager	2006
Brian Gruhn	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Brooklyn-Guernsey-Malcom Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Brooklyn-Guernsey-Malcom Community School District, Brooklyn, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

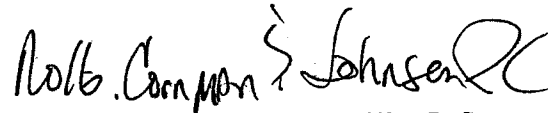
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Brooklyn-Guernsey-Malcom Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2006 on our consideration of Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Brooklyn-Guernsey-Malcom Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

July 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Brooklyn-Guernsey-Malcom Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,790,658 in fiscal 2005 to \$4,853,990 in fiscal 2006, while General Fund expenditures increased from \$4,182,589 in fiscal 2005 to \$4,871,029 in fiscal 2006. This resulted in a decrease in the District's fund balance from \$1,398,071 in fiscal 2005 to \$1,381,032 in fiscal 2006.
- The increased revenue was due to the slight increase in property taxes, tuition and state revenues in fiscal 2006.
- The increase in expenditures was attributable to the increase in purchased services, supplies, and equipment expenses in the transportation and operation and maintenance of plant services.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Brooklyn-Guernsey-Malcom Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how the governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Brooklyn-Guernsey-Malcom Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Brooklyn-Guernsey-Malcom Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Brooklyn-Guernsey-Malcom Community School District Annual Financial Report

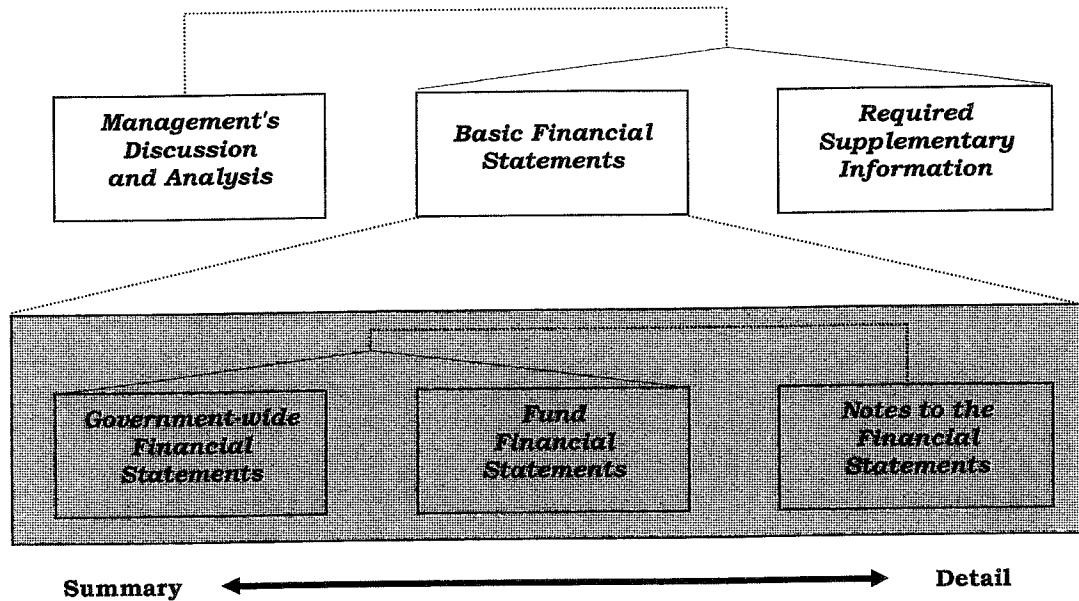


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition, daycare and wellness building programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and the Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has three enterprise funds, the School Nutrition Fund, the Daycare Fund and the Wellness Building Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 8,604,869	8,372,681	\$ 43,452	59,967	\$ 8,648,321	8,432,648	2.56%
Capital assets	5,726,745	5,698,767	91,035	50,959	5,817,780	5,749,726	1.18%
Total assets	14,331,614	14,071,448	134,487	110,926	14,466,101	14,182,374	2.00%
Long-term obligations	9,120,098	8,753,575	0	0	9,120,098	8,753,575	4.19%
Other liabilities	2,662,750	2,481,867	19,717	4,415	2,682,467	2,486,282	7.89%
Total liabilities	11,782,848	11,235,442	19,717	4,415	11,802,565	11,239,857	5.01%
Net assets:							
Invested in capital assets, net of related debt	1,457,329	430,971	91,035	50,959	1,548,364	481,930	221.28%
Restricted	249,908	761,348	0	0	249,908	761,348	-67.18%
Unrestricted	841,529	1,643,687	23,735	55,552	865,264	1,699,239	-49.08%
Total net assets	\$ 2,548,766	2,836,006	\$ 114,770	106,511	\$ 2,663,536	2,942,517	-9.48%

The District's combined net assets decreased by 9.48% compared to the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately 67% from the prior year. The decrease was primarily a result of the decrease in the Special Revenue-Physical Plant and Equipment Levy fund balance.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- decreased approximately 49% compared to the prior year.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 478,877	492,598	\$ 178,467	178,245	657,344	670,843	-2.01%
Operating grants and contributions and restricted interest	594,029	593,092	120,578	98,267	714,607	691,359	3.36%
Capital grants and contributions and restricted interest	45,800	0	0	0	45,800	0	100.00%
General revenues:							
Property tax	2,300,427	2,315,404	0	0	2,300,427	2,315,404	-0.65%
Local option sales and service tax	389,526	379,291	0	0	389,526	379,291	0.00%
Unrestricted state grants	2,316,266	2,302,752	0	0	2,316,266	2,302,752	0.59%
Other	196,403	147,757	176	239	196,579	147,996	32.83%
Total revenues	<u>6,321,328</u>	<u>6,230,894</u>	<u>299,221</u>	<u>276,751</u>	<u>6,620,549</u>	<u>6,507,645</u>	<u>1.73%</u>
Program expenses:							
Governmental activities:							
Instructional	3,774,888	2,989,316	0	0	3,774,888	2,989,316	26.28%
Support services	1,782,944	1,316,272	0	0	1,782,944	1,316,272	35.45%
Non-instructional programs	0	0	290,962	260,655	290,962	260,655	11.63%
Other expenses	1,050,736	1,305,740	0	0	1,050,736	1,305,740	-19.53%
Total expenses	<u>6,608,568</u>	<u>5,611,328</u>	<u>290,962</u>	<u>260,655</u>	<u>6,899,530</u>	<u>5,871,983</u>	<u>17.50%</u>
Change in net assets	(287,240)	619,566	8,259	16,096	(278,981)	635,662	-143.89%
Net assets beginning of year	<u>2,836,006</u>	<u>2,216,440</u>	<u>106,511</u>	<u>90,415</u>	<u>2,942,517</u>	<u>2,306,855</u>	<u>27.56%</u>
Net assets end of year	<u>\$ 2,548,766</u>	<u>2,836,006</u>	<u>\$ 114,770</u>	<u>106,511</u>	<u>2,663,536</u>	<u>2,942,517</u>	<u>-9.48%</u>

In fiscal 2006, property tax and unrestricted state grants account for 73% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$6.62 million of which \$6.32 million was for governmental activities and \$0.3 million was for business type activities.

As shown in FigureA-4, the District as a whole experienced a 1.73% increase in revenues and a 17.5% increase in expenses. The increase in expenses related to increases in the negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$6,321,328 and expenses were \$6,608,568.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses. The net cost of services is the result after

subtracting grants and charges for services that the District used to offset the program's total cost.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,774,888	2,892,523
Support services	1,782,944	1,782,762
Other expenses	1,050,736	814,577
Totals	<u>\$ 6,608,568</u>	<u>5,489,862</u>

- A portion of the cost financed by users of the District's programs was \$478,877.
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$639,829.
- The net cost portion of governmental activities was financed with \$2,300,427 in property tax, \$389,526 in local option sales and service tax, \$2,316,266 in unrestricted state grants and unrestricted investment earnings of \$151,988.

Business-Type Activities

The District's business-type activities are the School Nutrition Fund, the Daycare Fund and the Wellness Building Fund. Revenues of the District's business-type activities totaled \$299,221 in 2006, which is an increase of 8% over the prior year. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income. Expenses increased 11.6% to \$290,962 for business-type activities in 2006, this was due to an increased cost to provide meals.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Brooklyn-Guernsey-Malcom Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As the District completed the year, its governmental funds reported combined fund balances of \$5,735,295, an increase of \$96,803 above last years ending fund balances of \$5,638,492.

Governmental Fund Highlights

- The District's decrease in General Fund financial position is the result of many factors. Growth during the year in local and state sources resulted in an increase in revenues. The District also increased its General Fund expenditures over the prior year. The biggest change in General Fund expenditures came in the instructional area.
- Rising insurance costs continue to be a concern. The District's Management Fund paid out \$58,187 for workers' compensation, liability, auto/bus, and building/property insurance in fiscal year 2006. The Management fund balance increased \$4,462 during the year, primarily because an increase in the tax levy.
- The District's expenditure increase was due to the purchase of new equipment primarily new buses during the current year. To keep costs under control, the District continued to closely monitor operating expenses.

Proprietary Fund Highlights

- School Nutrition Fund net assets increased from \$118,123 at June 30, 2005 to \$128,543 at June 30, 2006, representing an increase of 8.8%.
- The increase to the fund balance in the Nutrition Fund can be attributed to increase in federal funding during the year.
- The Daycare Fund continues to have a deficit of fund balance of \$13,780, which decreased in 2006 from a deficit of \$11,612 in 2005.

BUDGETARY HIGHLIGHTS

Over the course of the year, Brooklyn-Guernsey-Malcom Community School District amended its annual budget one time to reflect additional expenditures associated with Wellness Building and Nutrition Fund.

The District's revenues were \$299,354 more than budgeted revenues. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget exceeded in the other expenditures functional area due to the timing of expenditures paid at year end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$5,817,780, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See figure A-6) More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$349,780.

The original cost of the District's capital assets was \$8,279,092. Governmental funds account for \$8,121,249, with the remainder of \$157,843 accounted for in the Proprietary School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$596,065 at June 30, 2006, compared to \$443,856 reported at June 30, 2005. The primary reason for such a change is due to the purchases of new buses and nutrition equipment during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 65,520	65,520	\$ 0	0	\$ 65,520	65,520	0.00%
Buildings	5,148,088	5,229,516	0	0	5,148,088	5,229,516	-1.58%
Improvements other than buildings	8,107	10,834	0	0	8,107	10,834	-33.64%
Machinery and equipment	505,030	392,897	91,035	50,959	596,065	443,856	25.54%
Total	<u>\$ 5,726,745</u>	<u>5,698,767</u>	<u>\$ 91,035</u>	<u>50,959</u>	<u>\$ 5,817,780</u>	<u>5,749,726</u>	<u>1.17%</u>

Long-Term Debt

At year-end, the District had \$9,120,098 in bonds, notes and other long-term debt outstanding. This represents an increase of 4.2% from last year's balance of \$8,753,575. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
General obligation	\$ 8,085,000	8,315,000	-2.8%
Bond anticipation note	245,227	368,816	-33.5%
Early retirement	47,347	69,759	-32.1%
Compensated absences	742,524	0	100.0%
Totals	<u>\$ 9,120,098</u>	<u>8,753,575</u>	<u>4.2%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has experienced declining enrollment for a few years and expects the trend to continue for the next 6-10 years.
- SILO tax is bringing in money to help pay the deficits that have been made by cuts in funding.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projection. The District has been forced to shift funding to property taxes.
- It is a possibility that in the next couple of years the old school building will be demolished, which will make finances tight during this period.
- During 2007, the baseball/softball complex is going to be renovated.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Goodrich, Board Secretary, Brooklyn-Guernsey-Malcom Community School District, 1090 Jackson Street, Brooklyn, Iowa, 52211.

BASIC FINANCIAL STATEMENTS

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
U.S. Treasury Securities on deposit with escrow agent	\$ 3,617,922	0	3,617,922
Cash and cash equivalents:	2,426,019	38,076	2,464,095
Receivables			
Property tax:			
Delinquent	25,691	0	25,691
Succeeding year	2,201,586	0	2,201,586
Income surtax	235,088	0	235,088
Accounts	403	0	403
Due from other governments	98,160	0	98,160
Inventories	0	5,376	5,376
Capital assets, net of accumulated depreciation (Note 4)	5,726,745	91,035	5,817,780
Total Assets	14,331,614	134,487	14,466,101
Liabilities			
Accounts payable	46,265	14,993	61,258
Salaries and benefits payable	380,613	1,859	382,472
Accrued interest payable	28,264	0	28,264
Deferred revenue:			
Succeeding year property tax	2,201,586	0	2,201,586
Other	6,022	0	6,022
Unearned revenue	0	2,865	2,865
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds	245,000	0	245,000
Bond anticipation note	245,227	0	245,227
Early retirement	9,597	0	9,597
Compensated absences	742,524	0	742,524
Portion due after one year:			
General obligation bonds	7,840,000	0	7,840,000
Early retirement	37,750	0	37,750
Total Liabilities	11,782,848	19,717	11,802,565
Net Assets			
Investment in capital assets, net of related debt	1,457,329	91,035	1,548,364
Restricted for:			
Salary improvement program	10,385	0	10,385
Early intervention	645	0	645
Physical plant and equipment levy	186,298	0	186,298
Other special revenue purposes	52,580	0	52,580
Unrestricted	841,529	23,735	865,264
Total Net Assets	\$ 2,548,766	114,770	2,663,536

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Operating Grants, Contributions		Capital Grants, Contributions			
	Charges for Expenses	and Restricted Services Interest	and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,454,316	186,427	370,934	0	(1,896,955)	0 (1,896,955)
Special instruction	713,857	109,944	32,736	0	(571,177)	0 (571,177)
Other instruction	606,715	182,324	0	0	(424,391)	0 (424,391)
	3,774,888	478,695	403,670	0	(2,892,523)	0 (2,892,523)
Support services:						
Student services	89,609	0	0	0	(89,609)	0 (89,609)
Instructional staff services	145,801	0	0	0	(145,801)	0 (145,801)
Administration services	636,584	0	0	0	(636,584)	0 (636,584)
Operation and maintenance of plant services	648,820	0	0	0	(648,820)	0 (648,820)
Transportation services	262,130	182	0	0	(261,948)	0 (261,948)
	1,782,944	182	0	0	(1,782,762)	0 (1,782,762)
Other expenditures:						
Facilities acquisitions	353,361	0	0	45,800	(307,561)	0 (307,561)
Long-term debt interest	369,992	0	0	0	(369,992)	0 (369,992)
AEA flowthrough	190,359	0	190,359	0	0	0 0
Depreciation(unallocated)*	137,024	0	0	0	(137,024)	0 (137,024)
	1,050,736	0	190,359	45,800	(814,577)	0 (814,577)
Total governmental activities	6,608,568	478,877	594,029	45,800	(5,489,862)	0 (5,489,862)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	260,181	166,347	104,078	0	0	10,244 10,244
Daycare	15,788	12,120	1,500	0	0	(2,168) (2,168)
Wellness Building	14,993	0	15,000	0	0	7 7
Total business-type activities	290,962	178,467	120,578	0	0	8,083 8,083
Total	\$ 6,899,530	657,344	714,607	45,800	(5,489,862)	8,083 (5,481,779)
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,622,802	0	1,622,802
Debt service				412,843	0	412,843
Capital outlay				264,782	0	264,782
Local option sales and services tax				389,526	0	389,526
Unrestricted state grants				2,316,266	0	2,316,266
Gain on sale of equipment				2,473	0	2,473
Unrestricted investment earnings				151,988	176	152,164
Other				41,942	0	41,942
Total general revenues				5,202,622	176	5,202,798
Changes in net assets				(287,240)	8,259	(278,981)
Net assets beginning of year				2,836,006	106,511	2,942,517
Net assets end of year				\$ 2,548,766	114,770	2,663,536

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
Assets					
U.S. Treasury Securities on deposit with escrow agent	\$ 0	0	3,617,922	0	3,617,922
Cash and pooled investments:	1,708,793	0	220,753	518,254	2,447,800
Receivables:					
Property tax:					
Delinquent	17,964	0	5,173	2,554	25,691
Succeeding year	1,554,983	0	427,978	218,625	2,201,586
Income surtax	58,772	0	0	176,316	235,088
Accounts	60	0	0	343	403
Due from other governments	62,796	35,364	0	0	98,160
Total Assets	\$ 3,403,368	35,364	4,271,826	916,092	8,626,650
Liabilities and Fund Balances					
Liabilities:					
Excess of warrants issued over bank balance	\$ 0	21,781	0	0	21,781
Accounts payable	21,946	24,319	0	0	46,265
Salaries and benefits payable	380,613	0	0	0	380,613
Deferred revenue:					
Succeeding year property tax	1,554,983	0	427,978	218,625	2,201,586
Income surtax	58,772	0	0	176,316	235,088
Other	6,022	0	0	0	6,022
Total liabilities	2,022,336	46,100	427,978	394,941	2,891,355
Fund balances:					
Reserved for:					
Debt Service	0	0	3,843,848	0	3,843,848
Salary improvement program	10,385	0	0	0	10,385
Early intervention	645	0	0	0	645
Unreserved fund balances	1,370,002	(10,736)	0	521,151	1,880,417
Total fund balances	1,381,032	(10,736)	3,843,848	521,151	5,735,295
Total Liabilities and Fund Balances	\$ 3,403,368	35,364	4,271,826	916,092	8,626,650

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (pages 16)	\$ 5,735,295
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	5,726,745
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(28,264)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	235,088
Long-term liabilities, including notes and loans payable, early retirement and compensated absences, are not due and payable in the current period and, therefore are not reported in the funds.	<u>(9,120,098)</u>
Net assets of governmental activites (page 14)	<u><u>\$ 2,548,766</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,544,966	389,526	412,843	394,773	2,742,108
Tuition	296,371	0	0	0	296,371
Other	99,885	783	119,802	155,966	376,436
State sources	2,773,812	0	0	0	2,773,812
Federal sources	136,483	25,000	0	20,800	182,283
Total revenues	4,851,517	415,309	532,645	571,539	6,371,010
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	1,951,570	0	0	12,620	1,964,190
Special instruction	713,857	0	0	0	713,857
Other instruction	466,315	0	0	140,400	606,715
	3,131,742	0	0	153,020	3,284,762
Support services:					
Student services	89,609	0	0	0	89,609
Instructional staff services	145,801	0	0	0	145,801
Administration services	501,976	0	900	43,726	546,602
Operation and maintenance of plant services	494,930	0	0	73,060	567,990
Transportation services	316,612	0	0	2,929	319,541
	1,548,928	0	900	119,715	1,669,543
Other expenditures:					
Facilities acquisitions	0	213,345	0	192,885	406,230
Long-term debt:					
Principal	0	0	488,589	0	488,589
Interest	0	0	372,197	0	372,197
AEA flowthrough	190,359	0	0	0	190,359
	190,359	213,345	860,786	192,885	1,457,375
Total expenditures	4,871,029	213,345	861,686	465,620	6,411,680
Excess(deficiency) of revenues over(under) expenditures	(19,512)	201,964	(329,041)	105,919	(40,670)
Other financing sources(uses):					
Transfers in	0	0	644,696	0	644,696
Transfers out	0	(265,996)	0	(378,700)	(644,696)
Sale of bonds	0	135,000	0	0	135,000
Sales of equipment and materials	2,473	0	0	0	2,473
Total other financing sources(uses)	2,473	(130,996)	644,696	(378,700)	137,473
Net change in fund balances	(17,039)	70,968	315,655	(272,781)	96,803
Fund balances beginning of year	1,398,071	(81,704)	3,528,193	793,932	5,638,492
Fund balances end of year	\$ 1,381,032	(10,736)	3,843,848	521,151	5,735,295

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (pages 18) \$ 96,803

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 368,530	
Depreciation expense	(340,552)	27,978

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments were as follows:

Repaid	488,589	
Issued	(135,000)	353,589

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

2,205

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. (52,155)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	22,412	
Compensated absences	(742,524)	
ISEBA assessment	4,452	(715,660)

Changes in net assets of governmental activities (page 15) \$ (287,240)

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	School		Wellness	
	Nutrition	Daycare	Building	Total
Assets				
Cash and pooled investments	\$ 34,997	0	15,000	49,997
Inventories	5,376	0	0	5,376
Capital assets, net of accumulated depreciation	91,035	0	0	91,035
Total Assets	131,408	0	15,000	146,408
Liabilities				
Excess of warrants issued over bank balance	0	11,921	0	11,921
Accounts payable	0	0	14,993	14,993
Salaries and benefits payable	0	1,859	0	1,859
Unearned revenues	2,865	0	0	2,865
Total Liabilities	2,865	13,780	14,993	31,638
Net Assets				
Invested in capital assets, net of related debt	91,035	0	0	91,035
Unrestricted	37,508	(13,780)	7	23,735
Total Net Assets	\$ 128,543	(13,780)	7	114,770

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2006

	School Nutrition	Daycare	Wellness Building	Total
OPERATING REVENUE:				
Local sources:				
Charges for services	\$ 166,347	13,620	15,000	194,967
TOTAL OPERATING REVENUES	<u>166,347</u>	<u>13,620</u>	<u>15,000</u>	<u>194,967</u>
OPERATING EXPENSES:				
Non-instructional programs:				
Salaries	89,786	12,002	0	101,788
Benefits	16,812	3,786	0	20,598
Services	8,057	0	0	8,057
Supplies	136,298	0	14,993	151,291
Depreciation	9,228	0	0	9,228
TOTAL OPERATING EXPENSES	<u>260,181</u>	<u>15,788</u>	<u>14,993</u>	<u>290,962</u>
OPERATING INCOME (LOSS)	<u>(93,834)</u>	<u>(2,168)</u>	<u>7</u>	<u>(95,995)</u>
NON-OPERATING REVENUES:				
State sources	3,667	0	0	3,667
Federal sources	100,411	0	0	100,411
Interest income	176	0	0	176
TOTAL NON-OPERATING REVENUES	<u>104,254</u>	<u>0</u>	<u>0</u>	<u>104,254</u>
Changes in net assets	10,420	(2,168)	7	8,259
Net assets beginning of year	<u>118,123</u>	<u>(11,612)</u>	<u>0</u>	<u>106,511</u>
Net assets end of year	<u>\$ 128,543</u>	<u>(13,780)</u>	<u>7</u>	<u>114,770</u>

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	School Nutrition	Daycare	Wellness Building	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 164,663	0	0	164,663
Cash received from miscellaneous operating activities	1,921	14,500	15,000	31,421
Cash payments to employees for services	(106,598)	(15,716)	0	(122,314)
Cash payments to suppliers for goods or services	(125,792)	0	0	(125,792)
Net cash provided by(used in) operating activities	(65,806)	(1,216)	15,000	(52,022)
Cash flows from non-capital financing activities:				
State grants received	3,667	0	0	3,667
Federal grants received	83,936	0	0	83,936
Net cash provided by non-capital financing activities	87,603	0	0	87,603
Cash flows from capital and related financing activities:				
Purchase of capital assets	(49,304)	0	0	(49,304)
Cash flows from investing activities:				
Interest on investments	176	0	0	176
Net increase(decrease) in cash and cash equivalents	(27,331)	(1,216)	15,000	(13,547)
Cash and cash equivalents at beginning of year	62,328	(10,705)	0	51,623
Cash and cash equivalents at end of year	\$ 34,997	(11,921)	15,000	38,076
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (93,834)	(2,168)	7	(95,995)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	16,475	0	0	16,475
Depreciation	9,228	0	0	9,228
Decrease in inventories	2,088	0	0	2,088
Decrease in accounts receivable	0	880	0	880
Increase in accounts payable	0	0	14,993	14,993
Increase in salaries and benefits payable	0	72	0	72
Increase in unearned revenue	237	0	0	237
Net cash provided by(used in) operating activities	\$ (65,806)	(1,216)	15,000	(52,022)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ 34,997	(11,921)	15,000	38,076

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$16,475.

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Brooklyn-Guernsey-Malcom Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Brooklyn, Iowa, and portions of Guernsey and Malcom, and the predominate agricultural territory in Poweshiek County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Brooklyn-Guernsey-Malcom Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Brooklyn-Guernsey-Malcom Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Poweshiek County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the School Nutrition Fund, Daycare fund and Wellness Building fund. The School Nutrition Fund is used to account for the food service operations of the District. The Daycare fund is used to account for the child care provided by the District.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services,

administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the GAAP basis. The financial statements of the District are prepared by making memorandum adjusting entries to the GAAP basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded

as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account

balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the other expenditures functional area exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 777,516

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Securities are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Securities are stated at fair value. Securities traded on a national or international exchange are valued the last reported sales price at current exchange rates.

At June 30, 2006, the District had investments in U.S. Treasury Securities as follows:

	Fair Value
U.S. Treasury Securities	\$ 3,617,922

(3) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 265,996
	Special Revenue:	
	Physical Plant and	
Debt Service	Equipment Levy	378,700
		<u>\$ 644,696</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 108,539	49,304	0	157,843
Less accumulated depreciation	57,580	9,228	0	66,808
Business-type activities capital assets, net	<u>\$ 50,959</u>	<u>40,076</u>	<u>0</u>	<u>91,035</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 65,520	0	0	65,520
Total capital assets not being depreciated	65,520	0	0	65,520
Capital assets being depreciated:				
Buildings	6,662,008	52,869	0	6,714,877
Improvements other than buildings	34,092	0	0	34,092
Machinery and equipment	1,147,505	315,661	156,406	1,306,760
Total capital assets being depreciated	7,843,605	368,530	156,406	8,055,729
Less accumulated depreciation for:				
Buildings	1,432,492	134,297	0	1,566,789
Improvements other than buildings	23,258	2,727	0	25,985
Machinery and equipment	754,608	203,528	156,406	801,730
Total accumulated depreciation	2,210,358	340,552	156,406	2,394,504
Total capital assets being depreciated, net	5,633,247	27,978	0	5,661,225
Governmental activities capital assets, net	\$ 5,698,767	27,978	0	5,726,745

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	\$ 108,710
Regular	
Support services:	
Operation and maintenance of plant services	33,086
Transportation	61,732
	203,528
Unallocated depreciation	137,024
Total governmental activities depreciation expense	\$ 340,552
Business-type activities:	
Food services	\$ 9,228
Total business-type activities depreciation expense	\$ 9,228

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 8,315,000	0	230,000	8,085,000	245,000
Bond anticipation note	368,816	135,000	258,589	245,227	245,227
Early Retirement	69,759	43,727	66,139	47,347	9,597
Compensated absences	0	742,524	0	742,524	742,524
Total	\$ 8,753,575	921,251	554,728	9,120,098	1,242,348

General Obligation

On March 1, 2004, the District issued \$3,725,000 of general obligation refunding bonds, with interest rates ranging from 3.00% to 4.00%, for a crossover refunding of a portion of the general obligation bonds issued September 1, 1999. The District entered into an escrow agreement whereby the proceeds from

general obligation refunding bonds were converted into U.S. Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$3,585,000 principal of the refunded general obligation bonds when they become callable on May 1, 2009 and the interest from May 1, 2004 to and including May 1, 2009 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished.

Details of the District's June 30, 2006 General Obligation bonds indebtedness are as follows:

Year Ending June 30,	Interest Rate	Bond issue September 1, 1999		
		Principal	Interest	Total
2007	5.75 % \$	245,000	221,870	466,870
2008	4.80	260,000	207,782	467,782
2009	4.75	270,000	195,302	465,302
2010	4.80	285,000	182,478	467,478
2011	4.90	300,000	168,798	468,798
2012	4.95	315,000	154,098	469,098
2013	5.00	330,000	138,506	468,506
2014	5.10	345,000	122,006	467,006
2015	5.10	365,000	104,410	469,410
2016	5.15	380,000	85,796	465,796
2017	5.20	400,000	66,226	466,226
2018	5.20	420,000	45,426	465,426
2019	5.30	445,000	23,586	468,586
Subtotal		\$ 4,360,000	1,716,284	6,076,284

Year Ending June 30,	Interest Rate	Bond issue March 1, 2004		
		Principal	Interest	Total
2007	3.00 % \$	0	130,195	130,195
2008	3.00	0	130,195	130,195
2009	3.00	0	130,195	130,195
2010	3.00	335,000	127,720	462,720
2011	3.00	350,000	117,520	467,520
2012	3.00-3.20	360,000	106,945	466,945
2013	3.20-3.30	370,000	95,525	465,525
2014	3.30-3.50	380,000	83,325	463,325
2015	3.50-3.70	395,000	70,128	465,128
2016	3.70-3.75	410,000	55,615	465,615
2017	3.75-3.90	425,000	40,103	465,103
2018	3.90-4.00	440,000	23,490	463,490
2019	4.00	260,000	7,900	267,900
Subtotal		\$ 3,725,000	1,118,855	4,843,855
Total		\$ 8,085,000	2,835,139	10,920,139

Bond Anticipation Notes

Details of the District's June 30, 2006 Revenue Bonds is as follows:

Year Ending June 30,	Interest Rate	Note issue July 15, 2004		
		Principal	Interest	Total
2007	3.00 %	\$ 245,227	3,042	248,269

Early Retirement

The District offers a voluntary early retirement plan to its full-time certified employees. Eligible employees must be at least age fifty-five, and less than sixty-five, and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. A cash payment will be made in either one or two payments, at the discretion of the employees, on July 15, September 15, November 15, or January 15 of the following year, based on the formula using unused leave days, the daily substitute teacher pay rate, and years of District service. The District will also continue paying the health insurance coverage for a single policy at the rate of the cost of a single policy in effect at the time of retirement until the retiree reaches age 65. During the year ended June 30, 2006, the District paid \$66,139 in early retirement benefits.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$153,457, \$145,641, \$137,933, respectively, equal to the required contributions for each year.

(7) Risk Management

Brooklyn-Guernsey-Malcom Community School District is exposed to Various risks of loss related to torts; theft; damage to and Destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$190,359 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the other expenditures functional program area exceeded the amount budgeted.

(10) Deficit Fund Balance

The District had two deficit fund balances at June 30, 2006. The Enterprise Fund - Daycare Fund had a deficit undesignated balance of \$13,780. The Capital Projects Fund had deficit fund balance of \$10,736.

REQUIRED SUPPLEMENTAL INFORMATION

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,414,915	195,143	3,610,058	3,239,469	3,239,469	370,589
State sources	2,773,812	3,667	2,777,479	2,959,408	2,959,408	(181,929)
Federal sources	182,283	100,411	282,694	172,000	172,000	110,694
Total revenues	6,371,010	299,221	6,670,231	6,370,877	6,370,877	299,354
Expenditures:						
Instruction	3,284,762	0	3,284,762	3,770,000	3,826,290	541,528
Support services	1,669,543	0	1,669,543	1,858,000	1,858,000	188,457
Non-instructional programs	0	290,962	290,962	329,000	570,540	279,578
Other expenditures	1,457,375	0	1,457,375	1,235,660	1,235,660	(221,715)
Total expenditures	6,411,680	290,962	6,702,642	7,192,660	7,490,490	787,848
Excess(deficiency) of revenues over(under) expenditures	(40,670)	8,259	(32,411)	(821,783)	(1,119,613)	(1,087,202)
Other financing sources, net	137,473	0	137,473	0	0	(137,473)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	96,803	8,259	105,062	(821,783)	(1,119,613)	(1,224,675)
Balance beginning of year	5,638,492	106,511	5,745,003	5,157,929	5,157,929	587,074
Balance end of year	\$ 5,735,295	114,770	5,850,065	4,336,146	4,038,316	1,811,749

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$297,830.

During the year ended June 30, 2006, expenditures in the other expenditures functional area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 35,054	52,580	430,620	518,254
Receivables:				
Property tax:				
Current year delinquent	1,649	0	905	2,554
Succeeding year	150,000	0	68,625	218,625
Income surtax	0	0	176,316	176,316
Accounts	343	0	0	343
Total Assets	\$ 187,046	52,580	676,466	916,092
Liabilities and Fund Balances				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ 150,000	0	68,625	218,625
Income surtax	0	0	176,316	176,316
Total Liabilities	150,000	0	244,941	394,941
Unreserved fund balances	37,046	52,580	431,525	521,151
Total Liabilities and Fund Balances	\$ 187,046	52,580	676,466	916,092

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 129,991	0	264,782	394,773
Other	3,587	149,036	3,343	155,966
Federal sources	0	0	20,800	20,800
TOTAL REVENUES	133,578	149,036	288,925	571,539
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	12,620	0	0	12,620
Other instruction	0	140,400	0	140,400
Support services:				
Administration services	43,726	0	0	43,726
Operation and maintenance of plant services	72,770	290	0	73,060
Student transportation	0	0	2,929	2,929
Other expenditures:				
Facilities acquisitions	0	0	192,885	192,885
TOTAL EXPENDITURES	129,116	140,690	195,814	465,620
EXCESS OF REVENUES OVER EXPENDITURES	4,462	8,346	93,111	105,919
OTHER FINANCING USES:				
Transfers out	0	0	(378,700)	(378,700)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	4,462	8,346	(285,589)	(272,781)
FUND BALANCES BEGINNING OF YEAR	32,584	44,234	717,114	793,932
FUND BALANCES END OF YEAR	\$ 37,046	52,580	431,525	521,151

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 1,304	239	1,543	0
Dramatics	1,860	0	573	1,287
Vocal music	863	1,333	1,743	453
JH vocal music	186	687	569	304
Band Resale	(68)	365	297	0
Band uniform cleaning	978	270	0	1,248
Athletics	(1,446)	44,137	37,708	4,983
Athletics resale	0	981	197	784
Volleyball	1,459	3,926	4,064	1,321
Band instrument rent	121	170	291	0
Pool activity	1,121	6,754	4,977	2,898
Boys basketball	12	0	0	12
Football	(471)	8,772	4,859	3,442
Girls basketball	106	4,714	4,819	1
Girls softball	239	1,942	1,794	387
Girls track	669	1,842	1,840	671
Boys track	2	1,110	947	165
Student council	7,561	14,493	15,512	6,542
JH student council	338	5,130	4,683	785
Elementary student council	4,108	5,904	6,513	3,499
Silver spirit poms	1,785	2,230	3,447	568
Elementary student council camp	1,151	2,960	2,380	1,731
Elementary student welfare	298	1,115	1,281	132
Echo	5,793	9,079	7,495	7,377
FHA	239	0	0	239
Pep club	84	0	0	84
Boys letter club	38	0	0	38
Girls letter club	36	0	0	36
HS cheerleaders	808	3,170	2,851	1,127
JH cheerleaders	10	0	0	10
French club	80	0	0	80
Jump rope for heart	856	0	0	856
FCA	1,745	0	0	1,745
Elementary resale	559	0	0	559
Special athletics	4,609	19,763	19,537	4,835
AFS	170	0	0	170
Class of 2006	4,426	110	4,536	0
Class of 2007	2,065	6,264	6,157	2,172
Class of 2008	540	1,171	77	1,634
Class of 2009	0	405	0	405
Total	\$ 44,234	149,036	140,690	52,580

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 2,742,108	2,776,594	2,682,910	2,354,566
Tuition	296,371	287,051	277,792	197,101
Other	376,436	207,620	207,714	276,838
State sources	2,773,812	2,704,103	2,464,710	2,530,862
Federal sources	182,283	191,741	571,600	119,985
Total	<u>\$ 6,371,010</u>	<u>6,167,109</u>	<u>6,204,726</u>	<u>5,479,352</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,964,190	2,048,735	2,091,818	1,866,606
Special instruction	713,857	620,979	549,516	497,093
Other instruction	606,715	287,395	438,253	356,892
Support services:				
Student services	89,609	43,073	42,443	68,474
Instructional staff services	145,801	115,767	108,106	69,346
Administration services	546,602	509,434	511,743	479,280
Operation and maintenance of plant services	567,990	420,102	619,082	424,908
Transportation services	319,541	163,817	302,023	130,252
Other expenditures:				
Facilities acquisitions	406,230	621,754	1,216,670	179,214
Long Term Debt:				
Principal	488,589	641,902	966,725	262,557
Interest	372,197	409,159	359,404	283,475
AEA flow-through	190,359	186,460	183,434	189,299
Total	<u>\$ 6,411,680</u>	<u>6,068,577</u>	<u>7,389,217</u>	<u>4,807,396</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Brooklyn-Guernsey-Malcom Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Brooklyn-Guernsey-Malcom Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated July 28, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brooklyn-Guernsey-Malcom Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Brooklyn-Guernsey-Malcom Community School District and other parties to whom Brooklyn-Guernsey-Malcom Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Brooklyn-Guernsey-Malcom Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

July 28, 2006

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-06 Activity Admissions - The Activity gate admissions and change box were not reconciled with pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for activity admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response - The District is looking into the issue and any procedural changes will be implemented as needed.

Conclusion - Response accepted.

- I-C-06 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events. The District currently receipts this into the Student Activity Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the general fund. The district should receipt rent collected for facility usage into the general fund.

Response - We will deposit all District proceeds into the General Fund.

Conclusion - Response accepted.

- I-D-06 Supporting Documents - We noted during our audit, an instance of payment for a lunch meeting that lacked a detailed receipt of what meals were purchased. There was also no documentation on who attended this lunch meeting.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, exceeded the amount budgeted in the other expenditures functional area.

Recommendation -The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will make sure that the budget is amended in the future before disbursements are made. The Board is given a budget report each month of what the budget is and the actual figures.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - No business transactions between the District and District officials were noted.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

- II-J-06 Financial Condition - During our audit, we noted deficit fund balances in two funds. The Enterprise Fund - Daycare Fund and Capital Projects Fund had deficit fund balances of \$13,780 and \$10,736, respectively.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - We will monitor these funds and investigate any available options to eliminate these deficits.

Conclusion - Response accepted.

Recommendation - The District should review its procedures to ensure that a detailed receipt for all meal reimbursements is presented for supporting documentation. The meal reimbursements need to specify whose meals the District is reimbursing for as well.

Response - We will obtain more detailed descriptions of lunch receipts and have the person listing whose meals they are for and for what purpose on the receipt or reimbursement form.

Conclusion - Response accepted.